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FINANCIAL DIGEST

MANUFACTURERS HANOVER TRUST

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APOCALYPSE? NO

Rather than declining in a frenzy of trading activity, the stock market should have applauded the Federal Reserve's moves to tighten credit, for they represent the first concrete efforts to battle inflation—anathema to the market—that the Fed has taken since the price spiral began several years ago. Yet, these measures are not so drastic that they will produce a credit crunch with widespread business failures and a prolonged and severe recession.

On the interest rate front, the one percentage point jump in the Fed's discount rate, which in turn, led to a one percentage point jump in the banks' prime lending rate to a record 14½ per cent, is not as high as it seems, when inflation is taken into account. Subtracting the ongoing rate of inflation from the posted prime produces a "real" prime rate of about +1½ percentage points. This is far below real prime interest rates reached at this stage in previous recessions. For example, seven months into the 1960-61 recession, the real prime rate was +2¾ points, while at the same point in the 1969-70 recession the real prime rate was +3¾ points. It was only +¼ point seven months into the 1973-75 recession—but one month later the real prime was +4½ points.

Thus last week's jump in short-term interest rates only serves to bring them into better line with their levels at this stage in previous business cycles, when inflation is considered. It does not represent a level that would tend to dry up business demand for funds altogether, thus sending the economy steeply downward. What is more, since the banks are not constrained from boosting the prime in response to changing costs of funds as they were in 1974, it should be expected that there will be money available to finance business loans for worthwhile purposes. Another difference between now and 1974 is that the banks are able to pay the market rate for new money, since the Fed did not lower the Regulation Q interest rate ceiling on large certificates of deposit.

The Fed's announcement that it will pay more attention to the amount of reserves in the banking system than to day-to-day fluctuations in interest rates does not represent as dramatic a change in money management as it might seem at first glance. The Fed will not totally ignore money market conditions, thereby allowing the key Federal funds rate to fluctuate without any constraints whatsoever. Rather, the Fed will simply look less at the Federal funds rate and more at the supply of bank reserves. Thus while money market interest rates may indeed be more volatile than they have been in the past, there is probably some point at which the Fed will intervene to prevent these oscillations from destabilizing the financial markets completely.

AN ATTEMPT TO CURB CREDIT EXPANSION

Nevertheless, whatever emphasis the Fed does place on bank reserves will represent a meaningful attempt by the Fed to gain control over the supply of money and credit. The Fed will no longer be seeking to achieve a stable interest rate in the Federal funds market at the expense of creating more money and credit in the economy than is consistent with non-inflationary growth. Once the Fed is able to get the money supply back onto a slower growth path, it will have gone a long way toward reducing inflation expectations.

Of course, the Fed can't do the job by itself. It needs help from fiscal policy. The government's budget must continue to move toward balance in order to take further pressure off the Fed to expand the supply of money and credit beyond the economy's actual needs. And if Washington were to change its tax policies to encourage business capital spending, so that additional supplies of goods and services can be brought on the market and productivity can once again increase, additional progress in lowering inflation expectations will occur. If and as this happens, the Fed's increased emphasis on bank reserves will result in a faster decline in short-term interest rates than might have occurred under its old method of pegging the Federal funds rate.

SELECTED FEDERAL RESERVE DATA

(Weekly Averages of Daily Figures—Millions of Dollars)

	Week Ending 10/10/79	Change Since Week Ago	Change Since Year Ago
Reserve Bank Credit:			
U.S. Gov'ts and Agencies Owned Outright & RPs	121,126	—2,390	— 1,393
Member Bank Borrowings	938	— 181	— 301
Float	6,841	+1,362	+ 1,532
Total Reserve Bank Credit	133,231	—2,230	+ 1,492
Treasury Deposits with Federal Reserve Banks	2,883	—2,042	—11,624
Currency Outside Banks	108,804	+ 883	+ 9,934
Member Bank Reserves:			
Required	40,719	—1,048	+ 3,072
Excess (Deficiency)	814	+ 457	+ 464
Total Reserves Held	41,533	— 591	+ 3,536
Net Free Reserves	15	+ 600	+ 699
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	85,297	+2,011	— 1,400
		r-Revised	
	10/3/79		
Money Supply ($ Bil., SA) M1	379.7	+ 2.0	+4.8%
Money Supply ($ Bil., SA) M2	935.4	+ 2.7	+7.6%

NEW YORK MONEY MARKET

Offering Rates 10/12/79

	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	11.30%	11.35%	11.2[illegible]%
*Federal Agencies	12.25	12.30	12.25
*Project Notes—Tax Free (46% Taxable Equivalent)	9.90	10.18	10.64
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
*Secondary Market—Prime	13.45	13.25	

†Finance Company Paper—Prime

5- 14 days	11.00%
15- 29 days	12.90
30- 59 days	11.25
60-179 days	10.75
180-270 days	9.88

‡Industrial Paper—Prime

30- 89 days	13.13
90-120 days	13.30

‡*Bankers' Acceptances

Nov.	13.00%
Dec.	13.00
Jan.	13.00
Feb.	13.00
Mar.	13.15
Apr.	13.15

‡Federal Funds Effective Rate 12.80%

‡Discount Basis *Subject to Availability ‡Estimated

SELECTED BUSINESS INDICATORS

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'79	$ 2,330	$ 2,292	$ 2,088
Gross National Product (1972 Dollars)*	2nd Q'79	$ 1,422	$ 1,431	$ 1,383
Percent Change, Annual Rate	2nd Q'79	—2.3%	1.1%	8.7%
Change in Consumer Prices (all urban consumers)*	Aug. '79	13.2%	12.0%	7.2%
Change in Producer Prices*	Sept. '79	16.8%	14.4%	9.6%
Civilian Employment (Thousands of Persons)‡	Sept. '79n	97,513	96,900	95,010
Unemployment as % of Civilian Labor Force‡	Sept. '79n	5.8%	6.0%	5.9%
Personal Income*	Aug. '79	$ 1,938	$ 1,930	$ 1,741
Leading Indicators Composite Index (1967 = 100)‡	Aug. '79	139.1	139.1	142.0
Industrial Production Index (1967 = 100)‡	Aug. '79	150.9	152.6	148.0
Net Change in Consumer Instalment Credit‡	Aug. '79n	$ 2.45	$ 2.44	$ 3.63
U.S. Merchandise Trade Balance‡	Aug. '79	—$ 2.36	—$ 1.11	—$ 1.84
Plant and Equipment Expenditures*	4th Q'79	$179.56(a)	$174.74(a)	$163.96
Private Housing Starts (Thousands of Units)*	Aug. '79	1,783	1,791	2,004
New Construction Expenditures*	Aug. '79	$ 229.2	$ 232.7	$ 210.9
Total Business Inventories‡	July '79	$ 413.8	$ 406.0	$ 363.0
Total Business Sales‡	July '79	$ 287.5	$ 283.4	$ 252.7

*Seasonally adjusted annual rate. ‡Seasonally adjusted. n Newly reported figure. a Anticipated

SHORT TERM PAPER OUTSTANDING

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CDs Weekly Reporting Banks			
Nationwide (10/3/79)	88,243	+ 440	+ 638
New York City (10/10/79)	18,552	+ 105	— 6,200
Commercial Paper (10/3/79)	107,830	+2,874	+31,686

BANK LOANS

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/3/79)	153,349	+ 890	+25,025
New York City (10/10/79)	45,663	+ 229	+ 8,119
	Total Loans Gross Adjusted		
	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/3/79)	390,080	+6,090	+61,871
New York City (10/10/79)	89,121	+ 615	+13,843

SECURITY MARKETS

	Friday 10/12/79	Change Since Week Ago	Change Since Year Ago
U. S. Governments, Closing Bid Prices:			
90-Day Bills (Discount Basis)	11.35%	+ .63	+ 3.40
180-Day Bills (Discount Basis)	11.38	+ .73	+ 2.75
Longest Bills (Discount Basis)	11.20	+ .45	+ 2.69
10⅛s 9/30/81	98.00	—1 18/32	
9¾s 9/30/83	97.18	—2 7/32	
9¼s 5/15/89	94.11	—3 15/32	
8¾s 8/15/94	99.10	+5 13/32	
9⅛s 5/15/09	93.28	—3 26/32	
Municipals:			
Bond Buyer—20 Bond Index* (10/12/79)	7.12%	+ .48	+ .98
Blue List Total ($ Million)	$ 810	—$ 4	—$ 37
30-Day Visible Supply ($ Million)	$2,573	—$ 164	+$ 981
Total	$3,383	—$ 168	+$ 944
Corporates:			
Moody's Aa Composite (10/12/79)	10.24%	+ .27	+ 1.14
Money Mgr.—30-Day Supply ($ Million)	$1,526	—$1,440	+$ 782
Stocks:			
Dow-Jones Averages			
Industrials	838.99	— 58.62	+ 0.98
Transportation	242.89	— 21.91	+ 19.04
Utilities	103.42	— 4.70	+ 1.12
65 Stocks	293.62	— 20.96	+ 7.24
Standard and Poor's 500 Stocks	104.49	— 6.78	+ 6.54
N.Y.S.E. Composite Index	59.50	— 3.93	+ 4.74
N.Y.S.E. Avg. Daily Vol. for Week (000's)	49,324	+11,962	+14,876

*46% Taxable Equivalent 13.19%

INTERNATIONAL RATES

	Friday 10/12/79	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	14.13%	12.25%
1 month	14.75	12.63
3 months	14.94	13.25
6 months	14.88	13.25
1 year	13.94	12.50
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	11.50%	10.30%
Long Term (10 to 15 yrs.)	11.30	10.20
FOREIGN EXCHANGE SPOT RATES New York Opening (in dollars)		
Belgium	.03342	.035075
Canada	.8512	.8582
France	.2371	.2411
Germany	.5558	.5696
Italy	.001202	.001227
Japan	.004397	.004454
Mexico	.04380	.04389
Netherlands	.5040	.5119
Switzerland	.6148	.6331
U.K.	2.1555	2.1866

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SHORT TERM PAPER OUTSTANDING

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CDs Weekly Reporting Banks			
Nationwide (10/17/79)	**89,693**	+ 894	+ 2,369
New York City (10/24/79)	**18,227**	— 382	— 7,392
Commercial Paper (10/17/79)	**108,845**	+1,822	+30,349

BANK LOANS

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/17/79)	**152,196**	—1,657	+23,383
New York City (10/24/79)	**44,966**	+ 18	+ 7,069

	Total Loans Gross Adjusted Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/17/79)	**387,410**	—2,084	+58,648
New York City (10/24/79)	**86,724**	—2,443	+10,328

SECURITY MARKETS

	Friday 10/26/79	Change Since Week Ago	Change Since Year Ago
U. S. Governments, Closing Bid Prices:			
90-Day Bills (Discount Basis)	**11.87%**	— .68	+ 3.07
180-Day Bills (Discount Basis)	**12.12**	— .33	+ 2.71
Longest Bills (Discount Basis)	**11.50**	— .35	+ 2.24
12⅜s 10/30/81	**101.5**	N.A.	
9¾s 9/30/83	**95.16**	+ 15/32	
9¼s 5/15/89	**91.26**	+ 17/32	
10⅛s 11/15/94	**98.00**	+ 4/32	
9⅛s 5/15/09	**91.00**	+ 1/32	
Municipals:			
Bond Buyer—20 Bond Index (10/26/79)	**7.38%**	+ .20	+ 1.16
Blue List Total ($ Million)	**$ 525**	—$ 94	—$ 138
30-Day Visible Supply ($ Million)	**$1,575**	—$ 420	—$ 425
Total	**$2,100**	—$ 514	—$ 563
Corporates:			
Moody's Aa Composite (10/26/79)	**11.05%**	+ .58	+ 1.80
Money Mgr.—30-Day Supply ($ Million)	**$1,399**	—$ 290	—$ 90
Stocks:			
Dow-Jones Averages			
Industrials	**809.30**	— 5.38	— 13.81
Transportation	**228.53**	— 2.67	+ 11.69
Utilities	**99.59**	— 1.56	+ 1.28
65 Stocks	**281.20**	— 2.70	+ 2.01
Standard and Poor's 500 Stocks	**100.57**	— 1.03	+ 4.39
N.Y.S.E. Composite Index	**56.97**	— 0.80	+ 3.48
N.Y.S.E. Avg. Daily Vol. for Week (000's)	**33,578**	— 480	—10,372

*46% Taxable Equivalent 13.67%

INTERNATIONAL RATES

	Friday 10/26/79	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	**14.25%**	13.25%
1 month	**15.13**	14.00
3 months	**15.63**	14.75
6 months	**15.38**	14.75
1 year	**14.38**	13.75
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	**11.50%**	11.55%
Long Term (10 to 15 yrs.)	**11.65**	11.50
FOREIGN EXCHANGE SPOT RATES New York Opening (in dollars)		
Belgium	**.03442**	.03450
Canada	**.8481**	.8463
France	**.2364**	.2369
Germany	**.5544**	.5564
Italy	**.001204**	.001206
Japan	**.004263**	.004326
Mexico	**.04374**	.04380
Netherlands	**.4991**	.5020
Switzerland	**.5998**	.6094
U.K.	**2.1074**	2.1510